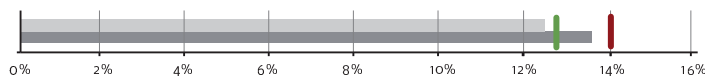




Is France ON TRACK?

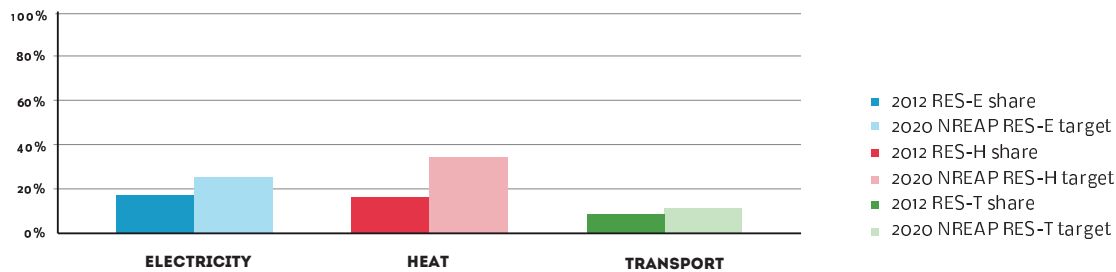
- France has neither achieved its 2012 NREAP target nor the less ambitious interim target 2011/2012.
- Growth in RES-E and RES-H&C shares needs to accelerate in order to achieve the 2020 targets.

OVERALL RES SHARE



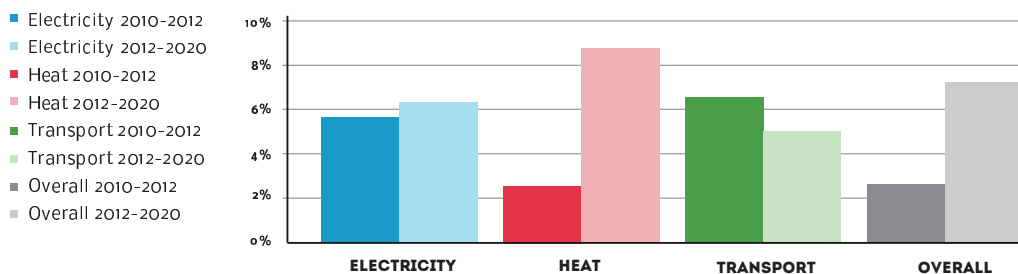
- 2011 Overall RES share
- 2012 Overall RES share
- 2011/2012 interim target set by RES Directive
- 2012 NREAP target

2012 RES SHARE COMPARED TO 2020 TARGET SHARE IN CORRESPONDING SECTORAL GROSS FINAL ENERGY DEMAND



| | ELECTRICITY | HEAT | TRANSPORT | TOTAL |
|--|-------------|-------|-----------|-------|
| 2012 actual share of RES in sectoral gross final energy demand | 16.6% | 16.9% | 7.1% | 13.4% |
| 2012 NREAP target | 17.0% | 19.0% | 7.2% | 14.0% |
| 2011/2012 interim target set by RES Directive | - | - | - | 12.8% |

AVERAGE ANNUAL GROWTH RATES OF RES SHARES FROM 2010 TO 2012 COMPARED TO GROWTH RATES REQUIRED FROM 2012 TO 2020





BARRIERS to RES deployment

ELECTRICITY

| BARRIER | DESCRIPTION |
|---|--|
| LACK OF STABLE AND DURABLE SUPPORT FOR RES | This particularly affects onshore wind and solar energy. The French wind energy sector is suffering from legal uncertainty of the FiT, due to the failing of France to notify the FiT as state aid. The PV sector has been subject to retroactive measures, undermining the confidence of investors and developers. The Court of Auditors also casts doubt on the support for PV, which is deemed too expensive and inefficient. |
| LENGTHY ADMINISTRATIVE PROCEDURES | The multi-layered legislation and permits, as well as the lack of coordination between the competent authorities, severely impair the efficient processing of administrative procedures. The multiplicity of appeal proceedings is also a direct consequence of the high number of permits and contributes to the administrative slowness. |
| SHORTCOMINGS OF THE REGIONAL GRID CONNECTION PLANS FOR RES | The foreseen allocation of a grid connection point for RES installations is not cost effective, since some assigned connection points can be very far from the RES installation. The developer has to bear the costs of the electricity transmission infrastructure from the installation to the grid connection point. Also, grid connection costs are shared unequally between producers and grid operators, which increases grid connection costs for project developers. |

HEAT

| BARRIER | DESCRIPTION |
|---|---|
| COMPETITION WITH ELECTRIC HEATING APPLIANCES | Over 30% of the existing individual and collective housing in France is equipped with electric heating systems. The preference for electric heating is explained by the stable price per kWh, the lower initial investment and the convenience of implementation. The thermal regulation "RT 2012" requires the mandatory use of RES. However, this regulation has only been in force since 1st January 2013 and only applies to new buildings. |
| DESIGN OF EXISTING SUPPORT SCHEMES | In France, the main share of renewable heat consumption is met by low capacity installations. However, two important support mechanisms, namely the Heat Fund and the tendering processes of the French Energy Regulatory Authority, do not address low capacity installations. |
| RIVALRY BETWEEN SOLAR THERMAL AND ENERGY EFFICIENCY MEASURES | Since heating is their largest source of energy consumption, households first undertake refurbishment works to reduce their heating bill. Insulation works or the replacement of the heating system will thus be carried out in priority before installing new devices for the production of hot water. Moreover, the purchasing cost of solar thermal systems is higher than for conventional systems fuelled by gas or electricity. |

TRANSPORT

| BARRIER | DESCRIPTION |
|--|--|
| LACK OF LONG TERM REGULATORY STABILITY AND VISIBILITY OF SUPPORT POLICIES | While the production of biofuels was originally vigorously encouraged, current debates at the European and national level rather discuss their limitation. The lack of stability is all the more critical since investors in 1st generation biofuels are the same as those in 2nd generation biofuels. Investors who experienced bad consequences from the unstable support policy for 1st generation biofuels may be more reluctant to invest in 2nd generation biofuels. |
| UNCERTAINTY OF THE BIOFUEL INCORPORATION RATE | Currently, the French regulation limits the blending of biodiesel into conventional diesel to 7%. The European blending target of 10% biofuels is currently being called into question at European level. The debate on lowering the 10% target for 1st generation biofuels in order to promote 2nd generation biofuels is considered particularly premature and confusing, since the latter are still at the stage of R&D. |
| LACK OF CLARITY OF EXISTING REGULATIONS FOR DOUBLE COUNTING OF BIOFUELS | The application of double counting of biofuels is not sufficiently regulated at European level, since there is no exact definition of the energy products benefiting from double counting. As a result, applications of double counting are very different from one member state to another, causing distortions of competition. |

KEY TRENDS IN THE RES SECTOR

- The main instrument to promote RES-E is a technology-specific feed-in tariff. Onshore and offshore wind, PV, geothermal, biogas, hydro power, tidal and wave, and solid biomass installations are eligible for support. In the case of PV, the amount of electricity to be remunerated for every power plant is capped at 1,500 full load hours annually. In addition, tenders exist for wind, PV, geothermal, hydro power, biogas and solid biomass installations.
- RES-H installations are supported by investment grants allocated through a tendering procedure (large biomass), and via a programme to support homeowners with modest incomes. A zero-interest loan exists for RES installations in the course of building renovations. Tax incentives are also being applied.
- In the transport sector, support is provided by a quota regulation on biofuel blending.

POLICY RECOMMENDATIONS



ELECTRICITY SECTOR

- Avoid exposing RES producers to legal and regulatory uncertainty such as caused by the recent law suit concerning state aid against French wind power producers. The uncertain situation has severely undermined investor confidence.
- Avoid changes in the tax regime which retroactively affect RES projects, such as the significant increase of the IFR tax¹⁴ especially for solar and onshore wind installations.
- Improve planning and permitting procedures: Ensure better coordination between the involved authorities and their respective time schedules. Speed up court procedures regarding complaints against planned wind farms. Simplify the adaptation of land use plans for large PV installations and ensure better coordination between spatial planning for wind farms and military safety restrictions.
- Grid connection and access: Provide reliable long-term RES policies to grid operators. Consider simplifying grid connection procedures. Apply compensation payments in case of curtailment due to local grid congestion.



HEATING AND COOLING SECTOR

- Consider encouraging investments into small RES-H installations. The investment grant allocated through tenders is mainly targeted at larger installations.
- Introduce a RES-H building obligation for new and renovated buildings as required by the RES Directive.
- Improve the energy efficiency of CHP plants: The tender design for CHP often focuses on electricity production. Consider the possibility of including heat production, in connection with heat demand on site, as a criterion in the tendering process



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¹⁴ IFR refers to the ICPE authorisation: "Installation classée pour la protection de l'environnement"